Pensions & Investment Age

Entire contents copyright 1986 by Crain Communications Inc. All rights reserved.

The newspaper of corporate and institutional investing • $4.00 an issue • $80 a year • October 13, 1986

Baby Bells take active role in real estate

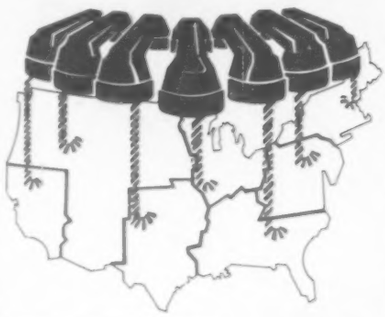
By Steve Hemmerick and Joel Chernoff

While real estate investing by most corporate pension funds has slowed to a crawl during the past two years, six regional Bell telephone operating companies have hired 23 real estate managers in that time.

Several of the "baby Bells" — the seven operating companies resulting from the divestiture of American Telephone & Telegraph Co. — have taken an aggressive track, plunging into separate accounts with some of the biggest names in the real estate advisory business. Others also have committed to closed-end pools, and one — BellSouth Corp., Atlanta — has yet to establish an individually tailored real estate program.

At the same time, the regional companies — who collectively control some $53 billion in pension assets — and AT&T, New York, are wrestling over the future of the $4 billion Telephone Real Estate Equity Trust. TREET is a 10-year wasting trust created Jan. 1, 1984 to hold real estate assets of the pension funds of AT&T and the regional companies.

While AT&T denies a breakup of TREET is in the works, pension and real estate sources say a meeting next month may lead to an agreement to ease withdrawal from the real estate fund by regional Bell funds seeking more control over their real estate assets (*see story on page 8*).



Certainly, the baby Bells' forays into real estate have created a giant competition to manage those assets. With most of the target allocations to real estate running from 10% to 15% of assets, more than $5 billion ultimately is at stake.

"Restructuring TREET will open up the sweepstakes again," predicted one real estate manager.

The hunt for good real estate, though, doesn't mean the regionals are throwing dollars at real estate now when many office markets are overbuilt, according to pension fund officials.

Instead, they have been establishing mostly separate accounts relationships and gearing up to invest further.

The separate accounts give the regionals the ability to earmark millions of dollars of assets for real estate, yet buy cautiously over time and not plunge into the market, according to a number of regional investment officers.

"We really don't do major market timing moves," explained Mary Beth Garrell, manager/trust investment management for U S WEST, whose fund is the only Bell fund known to have completely withdrawn from TREET.

As attractive properties come along, the managers can buy them, and real estate purchases aren't being forced, she said.

While U S WEST picked its first real estate managers as long as two years ago, two of the funds — NYNEX Corp., New York, and Southwestern Bell Corp., St. Louis — have just hired real estate advisers.

According to sources, NYNEX's $8 billion pension fund has picked Aldrich, Eastman & Waltch, Boston; Heitman Advisory Corp., Chicago; and John McMahan Associates, San Francisco, to run separate accounts. NYNEX officials declined to comment.

Southwestern Bell's pension fund, with about $5.5 billion in assets, has between 5% and 6% of assets invested in real estate,

Continued on page 77

Inside:

CORPORATE FINANCE: Activity was brisk as domestic new issues went over the $200 billion mark for the first nine months of 1986. Salomon Brothers continued to lead firms for the nine-month and three-month periods — page 25.

PUBLIC FUNDS: In an effort to avoid poor portfolio performance and to keep from missing out on potential investments, many public pension fund executives are creating new avenues to get around restrictive legislative guidelines — page 15.

HMO: The Harvard Community Health Plan, Boston, has grown gracefully from a small pension fund investing in guaranteed investment contracts to a mid-size fund with an actively managed balanced account — page 68.

Union charges misuse of assets

By Joel Chernoff

LOS ANGELES — The Amalgamated Clothing and Textile Workers Union has filed suit, charging that investor David H. Murdock illegally used the assets of the Cannon Mills retirement plan to boost his efforts to either take over or force "greenmail" payments from two companies.

One of those companies is Occidental Petroleum Corp., Los Angeles, which paid a $60 million premium to Murdock-controlled entities and the plan in 1984 to repurchase 4.8 million shares of Occidental stock.

A second charge asserts that, starting in 1984, Mr. Murdock used the pension fund to either help acquire or force a greenmail payment from Oakland, Calif.-based Kaiser Cement Corp. Mr. Murdock recently announced his plans to boost his holdings in Kaiser to 30% of its common stock.

In addition, the New York-based clothing workers' union alleged Mr. Murdock terminated the $59 million Cannon Mills pension plan last year to recapture some $25 million in surplus assets, as "part of an ongoing course of conduct" to use plan assets for his own purposes instead of those of plan participants and beneficiaries.

The union charged Mr. Murdock and members of the plan's investment committee failed to act solely in the interest of plan participants and as a prudent person would, as required by the Employee Retirement Income Security Act of 1974.

Mr. Murdock, who sold most of the assets of Cannon Mills Co., Kannapolis, N.C., to Fieldcrest Mills Inc., Eden, N.C., last year, said ACTWU's charges are "just another organizing tactic" by the union.

The union, which has lost 25% of its membership since 1979, lost a bitterly waged contest to organize Cannon Mill's workers a year ago by a margin of 63% to 37%.

"Now, one week before the law would permit them to begin another campaign, they are apparently starting with personal attacks against me, even though I no longer own Cannon," Mr. Murdock stated in a release.

A spokesman for the union said he knows of no plans to mount a new organizing campaign at Cannon.

For Mr. Murdock, the lawsuit represents the latest twist in his short history as owner of Cannon.

The 63-year-old, self-made millionaire from Los Angeles purchased the company in a $413 million leveraged buy-out in 1982, only to sell its largest division to Fieldcrest for $250 million late last year, as the textile industry nosed into a decline. Mr. Murdock held onto Cannon's real estate holdings, which Cannon reportedly valued at $150 million.

The union, which joined six plan participants, filed the lawsuit Oct. 1 in the U.S. District Court for the Central District of California.

The ACTWU charged that in August 1981, Mr. Murdock, through International Mining Corp., acquired more than 2.5 million shares of Occidental's common stock, and 700,000 shares of its preferred stock. International Mining and others affiliated with Mr. Murdock continued to acquire shares between that time and summer 1984, the union said.

In February 1982, however, Mr. Murdock was elected a director of Occidental under conditions barring him from acquiring more than 5% of the natural resource company's stock.

But to either force a takeover of Occidental or to press it to repurchase Murdock-controlled shares,

Continued on page 79

A GM assembly line worker

GM to save millions in payments

By Barry B. Burr

NEW YORK — General Motors Corp.'s decision to begin paying all of its 20,000 suppliers electronically will save the company hundreds of millions of dollars and likely will spur other corporations to stop making corporate trade payments by check.

General Motor's electronic payments system incorporates several notable features. Among them:

Cash management

• Company officials have set up a network of eight banks outside the automated clearinghouse to handle electronically payments and trade information.

• Working with the banks, GM executives designed the network to allow other banks to join and other industries to use it to send electronic corporate trade payments and trade information. Electronic Data Systems Corp., Dallas, a GM unit that developed the electronic system, plans to

Continued on page 78

Termination nears completion

Phillips taps new annuity

By Marci Baker

BARTLESVILLE, Okla. — Combining the new with the old, Phillips Petroleum Co. tapped so-called participating annuities along with more traditional annuities to complete the termination of its $1.5 billion pension fund late last month.

In doing so, the oil company joined a small, but growing list of corporate pension fund sponsors embracing the new kind of contract, which enables the pension fund to retain investment discretion over the assets backing the liabilities in the annuity.

Prudential Insurance Co., Newark, N.J., provided the contracts to Phillips.

The company recaptured about $380 million in surplus pension fund assets through the spinoff/termination. The recapture is expected to result in an estimated $155 million after-tax gain being posted in the third quarter.

Phillips plans to use the surplus pension assets to pay down debt of about $6.4 billion, most of which was incurred in March 1985, as part of a restructuring program designed to fend off hostile takeover bids. Officials have said Phillips should have between $5.5 billion and $6 billion in debt by year end.

To complete the asset recapture, Phillips split the $1.5 billion pension fund into two separate plans — one covering its approximately 15,500 active employees and the other covering its 14,000 retirees. (*Pensions & Investment Age*, June 23).

Assets exceeded total accrued liabilities by $505 million. However, Phillips elected to keep $125 million of that surplus in the new plan for active employees. The $380 million surplus that was being withdrawn was housed in the plan covering retirees.

That plan ultimately was terminated upon purchase of old-style annuities covering the company's pension obligations to retirees.

The participating annuity contract was established for the ongoing plan for active employees, said James Mulva, treasurer.

Mr. Mulva declined to comment on a breakdown of the value of accrued pension obligations, saying the final numbers were being computed now.

However, estimates at the time Phillips announced its spinoff/termination were that about $170 million in obligations had accrued to active employees while some $800 million had accrued to retirees.

The $170 million in active employee obligations would have been placed in the ongoing plan for active employees along with the $125 million surplus remaining with the fund.

Officials said Phillips chose to combine the two kinds of annuities in this fashion because it offered the most attractive pricing.

Participating annuities are finding increasing favor with corporate plan sponsors because the company gets an infusion of cash, plus it locks in payments for employee liabilities accrued to date.

The company also gets to benefit from any favorable actuarial and/or investment experience by using the participating annuities. It continues to house and have investment control over the assets covering liabilities.

As a result, it's possible to do a spinoff/termination and retain some, or all, of a fund's outside investment management talent or maintain an investment program with an equity orientation.

The purchase of traditional annuities typically has meant that fund assets would have to be concentrated in fixed income and be run by the insurance company

Continued on page 82

Western Asset buyer narrowed to 2 firms

LOS ANGELES — Western Asset Management Co. reportedly will be sold by First Interstate Bancorp to one of two final bidders — including United Asset Management, Boston.

The sale of the Los Angeles-based, fixed-income money management firm was nearing completion late last week, but it had been talked about for at least nine months. Western had about $2.2 billion tax-exempt assets under management as of Jan. 1 (*Pensions & Investment Age*, May 19).

Although officials of the giant California bank holding company and of UAM declined to comment, numerous sources confirmed the deal — peddled by Merrill Lynch & Co. as selling agent — was drawing to a close. They said First Interstate's top management is selling Western Asset because they want to divest of non-banking financial services and because key investment staff members want to operate independently.

"What they want to do is banking, period," said one West Coast money manager familiar with First Interstate's strategy. He cited the holding company's decision to pursue a merger with ailing BankAmerica Corp. as proof that, "at this particular institution, the emphasis is on banking."

First Interstate's strategy is the opposite of that being pursued by many other large financial services companies, whose intentions are to diversify, in part, by gobbling up money management firms.

It also raises the possibility that First Interstate's interests in other money managers — including real estate manager Karsten Cos. in Los Angeles and Miami; dynamic hedging specialist Leland O'Brien Rubinstein Associates Inc., Los Angeles; and equity manager Harris, Bretall, Sullivan & Smith Inc., San Francisco — will be put on the auction block.

"I think everybody is up for sale from the financial services standpoint," said another West Coast money manager.

John Lundsten, executive vice president of Karsten, confirmed First Interstate is "re-examining its position" because of the offer to merge with Bank of America, but said his firm — wholly owned by First Interstate Investment Services, a unit of the holding company — is conducting business as usual.

First Interstate owns 20% of LOR, but bank executives have told LOR's principals, who own the remaining 80%, that they are

Continued on page 81

Waiver pact payoff

PBGC may get chunk of LTV unit

By Richard Gillespie

WASHINGTON — The Pension Benefit Guaranty Corp. may become the owner of a $172 million chunk of LTV Aerospace and Defense Co., Dallas.

The PBGC's ownership of part of LTV Aerospace, triggered if the parent company terminates two Jones and Laughlin pension plans and the Republic Steel pension plan for hourly workers, would complicate the efforts of the parent company, The LTV Corp., Dallas, to emerge from Chapter 11 of the bankruptcy code.

It would do little, however, to help the PBGC, which is already reeling from the terminations of two pension plans formerly belonging to LTV, and which now seems certain to assume LTV's entire $2.4 billion unfunded pension liability.

LTV Corp.'s management hopes to hang on to LTV Aerospace and make it the cornerstone of the revival of the company.

But under a plan funding waiver granted last year, the Internal Revenue Service, on advice from the PBGC, agreed to waive the company's 1984 plan contributions for three plans in exchange for a secured interest in 100% of the stock of LTV Aerospace and Defense.

Termination of the plans would trigger the PBGC's claim against the LTV Aerospace and Defense unit. Investment advisers say the areospace and defense operation is worth at least $600 million, though LTV asserts it is worth much more.

"LTV clearly wants to hang in

Continued on page 79

NISF studies direct trades to cut costs

The National Investment Sponsor Federation, a federation of regional pension executive groups, is studying whether pension funds could cut transactions costs by trading directly with one another.

The question is one of two being studied by NISF study groups, according to David Seidel, vice president-pension fund management at GTE Investment Management, Stamford, Conn., who has been named president of the NISF.

Mr. Seidel succeeds Myra Drucker, director-trust investments, at International Paper Co., New York, who stepped down because of the press of work in her new position at International Paper.

Mr. Seidel said the second NISF task forces will study performance-based fees and what form of performance-based fee structure would improve the relationship between sponsor and manager.

David Seidel

In addition, the NISF has scheduled its first sponsors-only conference in New York Feb. 5 and 6.

Mr. Seidel stressed only pension sponsor executives would be allowed to attend the conference, which would be structured to encourage participation by pension executives through a case-

Continued on page 82

Highlights

CASH MANAGEMENT

Companies use loan investments 33
Cash accounts 33

CORPORATE FINANCE

Proprietary product sets best banks apart 25
Chrysler rating upgraded 25
New issues chart 26
Corporate notes 30

FEATURE

Minton: Who profits most from rebalancings? 70

PUBLIC FUNDS

Plans find ways to bolster funding 15
Funds like new combination 15
Mississippi proposal blocks raids 20
Low custody fees used as lure 22

REAL ESTATE

Funds are poised to re-enter market 45
Outlook for office buildings still gloomy 45
Land prices top inflation 45

GENERAL NEWS

Forstmann-Leff buy-out extends trend 4
Conrail ESOP to break up 6
TREET restructuring eyed 8

DEPARTMENTS

Datebook 53
Follow-up 72
Late news 82
Letters 12
Market beat 43
Money movers 74
Opinion 12
People 57
Research report 75
Washington notebook 40

Vol. 14, No. 22 — Pensions & Investment Age (ISSN 0273-5466) is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207. Copyright 1986.

Most new accounts* 3rd quarter 1986

Firm	New accounts
John Hancock Apt. Fund	8
Interven Partners	8
Wells Fargo Investment	7
The Boston Co.	6
Newbold's Asset Mgmt.	6
Dana Investment	6

* As reported in *Pensions & Investment Age.*

Most new assets* 3rd quarter 1986

Firm	$ mils.
Wells Fargo Investment	2,560
Mellon Bank	1,100
The Boston Co.	615
Fischer, Francis, Trees	600
Lehman Mgmt. Co.	543
Pacific Investment Mgmt.	524
T. Rowe Price	518
Putnam Advisory Co.	500
Rosenberg Capital Mgmt.	415
Miller, Anderson & Sherrerd	400

Passive strategies get most business

By Trudy Ring

Large public pension funds' money moves, especially allocations to passive investment strategies, accounted for the biggest shifts of dollars reported in *Pensions & Investment Age* in the third quarter.

Aided by these moves, Wells Fargo Investment Advisors, San Francisco, was the hottest money manager of the quarter, with $2.56 billion in new business reported in *P&I Age*. Each quarter's hot — and cold — managers are determined solely by accounts reported in the publication.

Wells Fargo's new business included $1 billion for various index funds and dynamic hedging for the $2.3 billion Illinois State Universities' Retirement System, Champaign, and $1 billion in U.S. government bonds for the $6.4 billion New York City Teachers' Retirement System.

The Illinois universities' system's move doubled its allocation to passive investments. The New York teachers' fund's action was part of a bond portfolio restructuring.

Wells Fargo's total also includes a bond index fund of $300 million to $500 million for the $2.7 billion Public Employees' Retirement System of Mississippi. The $300 million figure was used in calculating the total. The Mississippi fund is increasing its passive investments to 50% from 20% of its assets.

Wells Fargo also was the quarter's hottest manager, other than limited partnerships, in number of new accounts. It drew seven new clients.

Mellon Bank, Pittsburgh, was second hottest with $1.1 billion in new business, including a $1 billion chunk of the New York teachers' bond portfolio and a $100 million in-state stock index fund for the $6.8 billion Pennsylvania State Employees' Retirement System.

The Boston Co., Boston, was third with $615 million in new assets under management, including a $500 million balanced account for the Los Angeles Water & Power Employees' Retirement Plan. That was one of six new accounts for Boston Co., making it second to Wells Fargo by that measure.

Fischer, Francis, Trees & Watts was next with $600 million, all for the New York City teachers' bond portfolio. Rounding out the top 10 were managers with all or part of their new assets under management coming from that move.

They were Lehman Management Co., New York, with $542.75 million in total new assets; T. Rowe Price Associates Inc., Baltimore, with $518 million; Pacific Investment Management Co., Newport Beach, Calif., $523.75 million; Putnam Advisory Co., Boston, $500 million; Rosenberg Capital Management, San Francisco, $415 million; and Miller, Anderson & Sherrerd, Bala Cynwyd, Pa., $400 million.

The teachers' fund announced the manager hirings in July as

Continued on page 78

Advance contributions?

Pension executives evaluating possible tax benefits

By Marlene Givant

Pension fund executives, tax attorneys and actuaries are hitting the "books" to see whether their corporations might be able to make advance pension contributions and save on taxes.

Chrysler Corp., Detroit, saved itself $26 million by contributing about $200 million to its underfunded pension plan, before the Sept. 15, 1987, deadline, thus taking the deduction on the current, higher pre-tax reform rate. (*Pensions & Investment Age*, Sept. 29).

But though potentially lucrative, such a move is not hastily made.

Officials at Ford Motor Co., Dearborn, Mich.; Associated Milk Producers, San Antonio, Texas; and Scott Paper Co., Philadelphia, have just begun evaluating whether it would be feasible.

Ford executives haven't yet decided whether to make an advance contribution, according to Tom Foote, assistant manager-corporate news.

Associated Milk Producers officials will decide in November whether to make an early pension contribution, said Charlie Warren, assistant comptroller, while Scott Paper executives will decide by late December.

The Upjohn Co., Kalamazoo, Mich., won't be making an advance payment because it's fully funded, according to Jake Miller, trust investment manager.

"We didn't have a contribution for '86 and probably won't for a number of years," said Mr. Miller

International Minerals and Chemical Corp., Northbrook, Ill., would not benefit from paying early, said John Sonderegger, vice president-controller for salaried and hourly pension funds. "Any decision on pension contributions won't be based on taxes . . . We've had more losses than income recently.

"Expenses are higher than income. We have no incentive to accelerate pension payments."

Pension executives are studying the pros and cons of making their contributions early, partly at the behest of their consultants, actuaries and attorneys.

"We are recommending that every client look at that question," said Robert D. Paul, vice chairman of Martin E. Segal Co., New York.

"It's not a linear issue. You have to look at the whole balance sheet to see if it makes sense or not," said John Denney, vice president of James Meketa Associates, Newton Centre, Mass.

Corporations whose tax rates are likely to fall and companies with underfunded hourly pension plans would most likely benefit from contributing early, according to consultants.

Gary A. Pines, a benefits consultant in the Chicago office of Towers, Perrin, Forster & Crosby, outlined three factors involved in a corporation's decision whether to make an advance pension contribution:

- Because there must be a payment to be made, fully-funded plans could not benefit from the move.
- If a plan is underfunded, now would be a good time to make a contribution. While bringing the plan to a point at which it could cover a certain level of accrued benefits, the company also could save tax dollars.
- The company would have to have dispensable cash to channel into an advance contribution.

But a corporation might borrow money to make the contribution if the tax savings would exceed the liability, according to Mr. Paul.

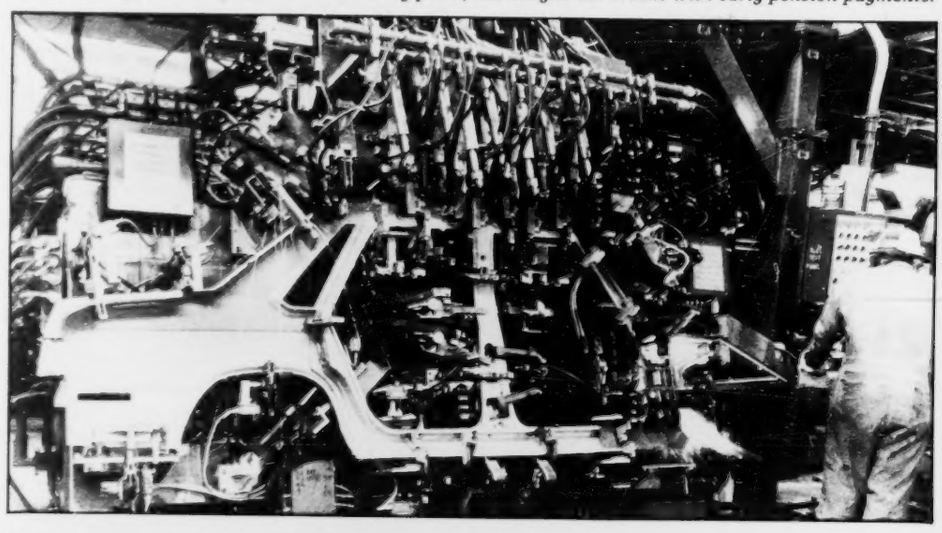
Under tax reform, corporations will pay tax at 34% for taxable years beginning on or after July 1, 1987. Now, corporations pay 46% on income exceeding $100,000.

Overall, a company would base a decision to pay early on the move's present value.

"If you're going to be in a 34% tax bracket, you need to make a decision — and it's a present value

Continued on page 81

Chrysler Corp., which operates this assembly plant, has sought tax breaks with early pension payments.



Auto Club 'insures' $40 million portfolio

By Steve Hemmerick

LOS ANGELES — The Automobile Club of Southern California, an insurance company, is protecting an additional $40 million invested in stocks with portfolio insurance.

The $40 million, in an index fund managed by Northern Trust Co., Chicago, is corporate, not pension money, that company officials want to protect against sudden downswings in the market. G. Leslie Britto, investment coordinator with the Automobile Club, said she and others at her company have been monitoring closely some $65 million invested in equities that her company first protected with dynamic hedging in 1981.

Portfolio insurance or dynamic hedging is designed to assure investors a minimum rate of return and allow most upside market gains, minus the cost of the protection.

Hedging is being provided by Leland O'Brien Rubinstein Associates Inc., Los Angeles, for a portion of the Automobile Club's reserves and surpluses in its insurance account, said Ms. Britto.

The reserve for an insurance account is an amount representing actual or potential liabilities kept by insurer to cover obligations to policyholders and third-party claimants. That is money set aside to pay claims, which it can't afford to lose because if reserves can't meet claims, an insurance company might have to use its operating capital.

"Our sensitivity to risk is explained by the fact that we are property casualty insurers," said Ms. Britto.

A surplus is money the company holds over and above the money needed for policy reserves on policies already written.

The decision to invest in an index fund that tracks the Standard & Poor's 500 stock index was not a move away from use of active management, said Ms. Britto.

Instead, she said, it was a way to

Continued on page 79

Market instability seen

Cash raised in third quarter

By Fred Williams

Active equity managers raised cash slightly during the third quarter in anticipation of continued market instability for the remainder of this year, but expect a rebound sometime in 1987.

Although third quarter cash reserves increased slightly to 6.5% from 6.3% at the end of the first half of the year, managers followed by *Pensions & Investment Age* were divided into those who raised cash and those who committed additional cash to the equity market during the quarter.

The latest analysis from INDATA indicates money managers had increased equity cash to about 6.8% just before the almost 121-point drop in the Dow Jones industrial averages Sept. 11 and 12, then committed some cash reserves to the weaker market by the end of the quarter. INDATA, an investment analysis service, is owned by Gordon, Haskett & Co., Southport, Conn. Its survey represents more than 2,000 institutional equity portfolios valued at more than $200 billion.

The steep drop in the Dow caught money managers off guard, although some started getting more cautious as the financial markets took on a more volatile complexion at mid-year.

Sit Investment Associates Inc., Minneapolis, raised equity cash to 12% in the third quarter from 10% at the end of the first half.

The decision to increase cash "has been proven out in the market," said Peter Mitchelson, executive vice president at Sit. "It's time to be more cautious, but we are still long-term bulls."

Referring to the Dow's plunge, Mr. Mitchelson said, "We didn't anticipate it and we did nothing in preparation for it. If anything, a decline of that nature will create some values. There hasn't been any strategy shift even though we had been raising a little cash. The basic thing is that you are coming off a good four years and it's normal to expect some pause.

"It has been a marvelous four

Continued on page 80

Opinion

Talk about taxes hasn't ended

PRESIDENT REAGAN has yet to sign the tax reform act passed by Congress, and already some in Congress are talking of raising taxes.

It is difficult to believe that Congress can find no other way to cut the deficit than by raising taxes. It is difficult to believe that federal spending must take almost 24% of the gross national product when for most of the 1950s, '60s and '70s, the government was able to operate on less than 20% of a much smaller GNP. It is difficult to believe that the only place Congress can find to cut the budget is in defense, which now absorbs a smaller percentage of the GNP than it did through most of the 1950s, '60s and '70s.

Clearly, the problem is that members of Congress find it impossible to say no to anyone who might be able to swing a vote for or against them.

But they should remember the money they are giving away is not waved into existence by a magic wand, but comes from the hard-earned income of taxpayers.

They should be as slow to spend taxpayers' money as they are to spend their own.

Unfortunately, the way Congress throws money at programs and problems, the way it passes pork-barrel legislation, it is clear that most members have lost sight of how hard the average taxpayer works to earn his or her income.

Defined benefit plans slowly dying

CONGRESS HAS HAMMERED another nail into the coffin of defined benefit pension plans.

The new nail was hammered in by the tax reform bill just passed. Under the law, some companies with defined benefit pension plans will have to pay taxes on part of their pension contributions.

This is because companies may report different pension expense figures to the Internal Revenue Service than they will report to shareholders under the Financial Accounting Standards Board Statement 87.

FASB 87 requires companies to use a more liberal actuarial method than is actually used by many companies, which tend to fund conservatively.

Thus, the companies will report a lower pension expense, and, hence, higher earnings, to shareholders than to the IRS.

As a result, companies that find themselves exposed to the alternative minimum tax provisions in the law will have to pay 10% of the difference between the two measures of pension expense.

They can avoid this problem by abandoning defined benefit plans with their actuarial complications and adopting defined contribution plans, which are simpler to administer and report on to the employees, the shareholders, the IRS and the Labor Department.

The latest nail comes on top of five-year vesting (also in the tax bill) and FASB 87 (which required that pension liabilities be shown on the balance sheet).

The first nail in the coffin was the passage of the Employee Retirement Income Security Act, with its vesting, funding, fiduciary liability and reporting requirements, which added

significantly to the costs and complications of defined benefit plans. Corporations swallowed these.

Then the Economic Responsibility and Tax Act of 1982 reduced the value of defined benefit pensions for top management.

Now tax reform has, again, increased the cost and complications of defined benefit plans.

At some point, the final nail will be driven into the coffin, and companies will abandon defined benefit plans for most employees. That point may well be near.

Letters to the editor

Asset listing wrong

To the Editor: In your ranking of international investment managers published Aug. 4, Baillie Gifford Overseas Ltd. is shown as having $2 million under management for ERISA clients.

This should have read $55 million as of Dec. 31, 1985.

We currently manage $143 million for two such clients.

Peter J. Murray
Marketing executive
Baillie Gifford Overseas Ltd.
Edinburgh, Scotland

CIGNA data

To the Editor: Since we missed your annual issue of international advisers, we would appreciate it if you would place this information in "Letters to the Editor:"

CIGNA is at 950 Cottage Grove Road, Hartford, Conn. (203) 726-3153.

Total assets managed are $39 billion; tax-exempt assets, $18 billion; and tax-exempt assets invested overseas, $61 million.

A subsidiary of CIGNA Corp., CIGNA International Investment Advisers Ltd., managed $61 million in international accounts for 220 U.S. tax-exempt clients as of March 31.

Of that, $51 million was in foreign stocks, $1 million in bonds and $9 million was in cash equivalents.

The equity assets were committed most heavily to Japan, 47%; France, 7%; Germany, 6%; Netherlands, 6%; and Switzerland, 5%.

All of the investments were in commingled accounts.

CIGNA uses active geographic asset allocation and identification of fundamental changes in economic growth in its top-down approach.

Analysis focuses on identifying countries and market sectors with high growth potential.

Expected currency movements are managed by modifying the geographic portfolio allocation.

Stock selection capitalizes on the regions and market sectors that are most attractive on a relative value basis, emphasizing liquidity and strong fundamentals with a discipline that avoids overpaying.

Economic analysis is based on the research of three regional specialists, supplemented by external research.

Portfolios are highly diversified, emphasizing reduced volatility.

The firm has a portfolio management team in London with a branch office in Tokyo.

Minimum account size for individual management is $10 million.

Thomas R. John, vice president-investment sales, CIGNA Asset Advisers Inc., is client contact.

Carolyn F. DeLisle
Administrative assistant
CIGNA
Hartford, Conn.

Citicorp Investment

To the Editor: Citicorp Investment Management was omitted from the Cash Management Directory manager listing published July 21.

In addition to Citibank's extensive cash management services, Citicorp Investment Management Inc., a wholly owned subsidiary of Citicorp, is a leading manager of direct corporate assets.

Citicorp Investment Management manages $1.1 billion of short-term assets for 25 corporate cash clients.

We manage an additional $5.2 billion of short-term assets in equity, balanced and fixed-income portfolios for employee benefit fund clients.

Our short-term funds have consistently outperformed leading short-term market indexes and money market mutual fund averages.

Citicorp Investment Management takes an active management/total return approach. Our objective is to achieve the highest possible return without sacrificing preservation of principal and liquidity.

This is accomplished by anticipating changes in interest rates, yield curve and relative value analysis.

Instruments purchased include CDs, commercial paper, bankers acceptances, T-bills, T-notes, Yankee and Euro CDs, Euro time deposits, repos, government agencies, corporates and floating-rate notes.

Our contact is Joan McIlroy, vice president, 153 E. 53rd St., New York, N.Y. 10043; (212) 559-9710.

Michelle B. Alifanz
Vice president
Citicorp Investment
Management Inc.
New York

Pensions & Investment Age

EDITOR: Michael J. Clowes *(New York)*
MANAGING EDITOR: Nancy K. Webman *(Chicago)*
ASSISTANT MANAGING EDITOR: Elizabeth Karier *(Chicago)*
N.Y. BUREAU CHIEF: Joel Chernoff
ASSOCIATE EDITORS: Barry B. Burr *(Chicago)*, Marci Baker *(New York)*, Steve Hemmerick *(Los Angeles)*
WASHINGTON EDITOR: Richard J. Gillespie
STAFF REPORTERS: Chuck Paustian *(Chicago)*, Trudy Ring *(Chicago)*, Brad Rudin *(New York)*, Fred Williams *(Dallas)*
COPY EDITOR: Joanne Friedrick
DIRECTORY COORDINATOR: Carol Wiley
EDITORIAL PRODUCTION: Kristina M. Schramm *(Manager)*, Thomas J. Linden *(Asst. Manager)*
EDITORIAL ASSISTANTS: Arline Larson *(Chicago)*, Marlene Givant *(New York)*
CORPORATE ART DIRECTOR: Joe Faraci

PUBLISHER: William T. Bisson Jr. *(New York)*

ADVERTISING SALES DIRECTOR: Daniel S. Dent *(New York)*
ADVERTISING SALES STAFF: *(New York):* Sarah Michels Strader *(Eastern Adv. Mgr.)*, Yvonne P. Hobson, Jane Howell, Richard Zittle *(Atlantic Mgr.)*
(Chicago): Russ H. Hoeler *(Midwest Mgr.)*, Michael McEvily
Pattis Group, Alex Lilburn, 1800 N. Highland, Hollywood, Calif. 90028 (213/462-2700)
PROMOTION DEPARTMENT: Julie Hunt *(Director)*, Louise Sinnott *(Manager)*
CLASSIFIED SALES: Andrew Claflin 212/210-0284 *(New York)*
CLASSIFIED PRODUCTION: Jackie Henderson 312/649-5260 *(Chicago)*
REPRINT MANAGER & EDITORIAL INDEX SUBSCRIPTIONS: Ulla Rodriguez 212/210-0124
ADVERTISING PRODUCTION MGR. Kathy Knight *(Chicago)*
ASSISTANTS TO SALES STAFF: Susan Montaperto *(New York)*, Kenia Simonette *(New York)*
CIRCULATION DEPARTMENT: Barbara Kisch *(Manager)* 313/446-0478; *(PIPER subscription)* 313/446-0478; Patricia McMikel *(Subscription info.)* 313/446-0421; Carolyn L. Vincent *(Back copy sales)* 313/446-1600

PUBLISHING DIRECTOR: Stephen D. Gilkenson

CRAIN COMMUNICATIONS INC., publisher of Advertising Age, Automotive News, AutoWeek, Business Insurance, Business Marketing, City & State, Crain's Chicago Business, Crain's Cleveland Business, Electronic Media, Modern Healthcare and Monthly Detroit.

G.D. Crain Jr., founder (1885-1973)
Mrs. G.D. Crain, chairman
Keith E. Crain, vice-chairman
S.R. Bernstein, chairman/exec. committee
Rance Crain, president/editorial director
Mary K. Crain, treasurer
Merrilee P. Crain, secretary
William Morrow, senior vp/operations
H.L. Stevenson, corporate editor
Alice Sieloff, corp. marketing manager

Published every other week by Crain Communications, Inc. Offices at 220 E. 42nd St., New York 10017 (212/210-0100); 740 Rush St., Chicago 60611 (312/649-5200); 814 National Press Bldg., Washington, D.C. 20045 (202/662-7200); 6404 Wilshire Blvd., Los Angeles 90048 (213/651-3710); 1 North-Park East, Suite 114, 8950 N. Central Expwy., Dallas 75231 (214/692-9048).

$4.00 an issue, $80 a year in the U.S. Add $25 per year for air delivery to Europe and Middle East. Add $10 per year for surface mail to all other foreign countries. Add $30 for air delivery in U.S. and Canada.

WILLIAM STRONG, vp-circulation, JOHN HUFFMAN, fulfillment director. Four weeks notice required for change of address. Address all subscription correspondence to Pensions & Investment Age, 965 Jefferson, Detroit, Mich. 48207. Telex number: 25-6248; Cable address: CRAINCOM. Microfilm copies are available from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies are available from Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Oh. 44691.

Member of Business Publications Audit of Circulation
ABP VBPA

Public funds

Numbers improve as constraints are eased

By Chuck Paustian

Public pension funds, whose investment performance has been hindered in the past by restrictive investment guidelines, are beginning to find ways around those constraints.

• The $900 million Cook County Annuity & Benefit Funds, Chicago, which requires all final investment decisions to be approved at a monthly meeting of the board of trustees, allows its advisers to call an emergency meeting if a situation dictates, said John E. Fitzgerald, director.

• The $900 million District of Columbia Retirement Board, Washington, which operates under a restrictive South Africa divestiture policy, has opened up its portfolio to a wider variety of asset classes, said Earl Johnson Jr., executive director.

The 1986 Public Pension Funds report, conducted by Greenwich Associates, Greenwich, Conn., showed 72% of the public funds surveyed made non-legislative changes in investment policy during 1985, down slightly from the 74% in 1984 but up significantly from the 46% in 1983.

Public fund executives are looking to circumvent restrictions to which they, and their investment managers, attribute poor performance or potential loss.

Other restrictions mentioned by executives and managers that could hurt performance include maintaining a specified portion of the assets in cash, investing only in securities mentioned on a previously designated list and directing all trades through appointed brokerage houses.

Douglas A. Steger, vice president-marketing at Capital Supervisors Inc., Chicago, said his firm has started keeping two sets of performance numbers for its public and non-public clients to show the disparity in the figures.

"It's pretty legitimate when you get the chance to explain to them why we have two sets of numbers," said Mr. Steger.

He said public fund accounts have underperformed non-public ones (including corporations) by as much as 20% over a five-year period because of the various restrictions placed on the public accounts.

"Ten years ago, it was a real problem," said Ray Lillywhite, senior vice president in the San Francisco office of Alliance Capital Management Corp.

"As they were getting into active management and equity management, there was a great reluctance (on the part of the trustees) to give full discretion and remove the legal list," he said.

(The legal list was a list of approved securities in which the public pension fund could invest.)

Some public funds, such as the $500 million Vermont State Retirement System, Montpelier, were early pioneers in minimizing the potential impact of investment restrictions.

The Vermont Constitution requires the state treasurer to approve the pension system's investment transactions. Emory Hebard, state treasurer, said the approval process has become a mere technicality.

He said approval is granted the managers automatically, usually after the transactions have occurred, adding this has been the process for the 10 years he has been treasurer.

"If your managers are any good, you want them to manage and not hobble them in any way," said Mr. Hebard. "The way we do it is we hire good managers and let them loose."

Realizing the potential damage the restrictions could do to the fund, other public pension executives have begun to implement programs for their managers to avoid any negative situations.

"We have been extremely pleased with the progress made to overcome those restrictions," said Mr. Lillywhite, who previously worked for three public pension funds.

Mr. Fitzgerald said the ability of a manager to call an emergency meeting of the trustees was granted within six months after the fund initially moved to external equity managers about two years ago.

"I think any time the money managers have found it necessary, they've been able to get the board to respond immediately to their concerns and act promptly," Mr. Fitzgerald said.

He said a majority of the five-member board of trustees usually can be assembled the same day the investment adviser makes the request for an emergency meeting.

The process was implemented because the board of trustees understood the requirement that they make all final investment decisions could lead to problems. The board meets once each month.

"Basically, we didn't want to avoid opportunities and suffer any losses because of the inability to act," said Mr. Fitzgerald. He also said the board has no intention of relinquishing final approval.

"If they can't work within that and stand up to be graded in that respect, they should not be working with us," he said.

Mr. Johnson said the trustees of the District of Columbia's retirement system also realized the possible consequences of their anti-apartheid stance.

"One of the reasons our asset allocation is so diversified is to diversify away the risk of the restricted list of stocks," he said.

The retirement system's South Africa policy, adopted in 1984, states a manager can't invest in any company or financial institution that does business in, or has loans outstanding to, South Africa. A manager also can't deposit funds in such a financial institution.

"We probably have the most restrictive policy regarding South Africa," said Mr. Johnson, adding the restricted list of stocks comprises about 300 companies.

He attributed the diversification plan to the fund's above-average performance since adopting the restricted list.

"Up to this point, our performance, as

Continued on page 20

Plans find ways to bolster funding

By Brian Lehrer

Once saddled by poor funding, many state pension plans have taken advantage of a stronger securities market, fewer benefit improvements and increased government leeway to buoy their assets.

Studies comparing the funded ratios of 38 states from 1985 and 1986, conducted by the Martin E. Segal Co., Washington, show funded ratios improved in 21 states, declined in 15 and remained the same in two.

The funded ratios are derived by dividing the amount of total assets by the amount of total accrued liabilities. Diminishing unfunded liabilities have helped states increase their ratios.

Comparison of the interest-rate and salary assumptions of 40 states from the '85 and '86 studies shows 12 states increased the interest rates, one state decreased the interest rate and 27 remained the same. Some 23 states increased salary assumptions, four states decreased them and 13 remained constant.

A higher interest-rate assumption will lower unfunded liabilities; a higher salary assumption will increase them.

"I would say our latest decline in unfunded liability is because of the strength of the securities market," said Thomas Bleakney of Milliman and Robertson, Seattle, consulting actuary for the $1.1 billion Idaho Public Employee Retirement System, Boise.

"This year our numbers are going to be looking darn good because of high investment returns," he said.

Idaho's unfunded liabilities totaled $615 million in 1985, but decreased to $556 million in 1986, Mr. Bleakney said.

Norman Turnipseed, chief accountant and fiscal officer for the $5 billion Retirement Systems of Alabama, Montgomery, attributes Alabama's meteoric funded ratio increase, to 91.25% from 68%, to prudent investments and fewer benefit improvements.

"We have not had a substantial benefit improvement since 1976," he said.

He said adding benefits caused the state's unfunded liabilities to mushroom between 1963 and 1976. In that period, the teacher's pension fund alone more than tripled its liabilities, Mr. Turnipseed said.

But over the past 10 years, Alabama has turned the tables on liabilities, which plummeted by $298 million between 1984 and 1985.

Looser government reins have allowed public pension funds the freedom to set interest assumption rates and to invest in higher-yielding ventures, said Thomas Levy, senior vice president and actuary with Martin E. Segal.

"It used to be typical for the interest rate assumption to be established by state law," Mr. Levy said. "Now that's very rare."

Today's common rates, between 7% and 8%, are "significantly higher" than the typical 5% rates of five or 10 years ago, he said.

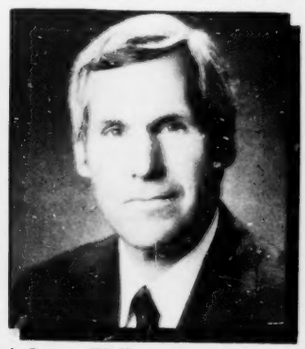
"A higher interest rate will sometimes result in a lower unfunded liability," Mr. Levy said.

Alabama adopted an 8% interest assumption in 1985, up from its 1984 assumption of 7%, because of better equity yields, Mr. Turnipseed said.

A higher assumption rate raises the discount rate, which in turn lowers a fund's liabilities.

Pension funds have increased

Continued on page 16



Chief Investment Officers Greta Marshall, California Public Employees'; Laura Wallace, Nevada Public Employees'; and DeWitt Bowman, San Francisco City and County Employees'.

Funds like new combination

Public execs link incentive fees with venture capital

By Trudy Ring

Public pension fund executives increasingly are expressing interest in the use of performance-based compensation arrangements for venture capital managers.

Many public funds, under no legal restrictions on performance-based fees, have adopted such arrangements for traditional investment managers and see extending the practice to alternative investments as a natural progression.

Many venture capitalists, however, oppose performance-based fees, saying the present system not only works well, but also already compensates the managers for performance.

Typically, pension funds and other investors that become limited partners in a venture capital fund pay the general partners — managers of the fund — a management fee, with the average being 2% to 2.5% of assets committed. Also, the limited and general partners usually split the capital gains of the venture fund. Commonly, the limited partners receive 80% of the gains and the general partners, 20%.

But Greta Marshall, chief investment officer of the $37 billion California Public Employees' Retirement System, Sacramento, said the 80-20 split isn't a true performance-based arrangement.

"They (general partners) get that split regardless of how they do in comparison to any relevant benchmark," she said. A real performance-based fee structure might give the general partners a very small percentage of the gains if profits are low, and increase the percentage if profitability is greater.

She noted there now is no accepted benchmark for venture capital performance, but some consulting firms are developing these measures. Venture capitalists contend such measures will be hard to develop.

The California employees' system has no venture capital investments now, but will look at this asset class as part of its asset allocation review, probably within the next month, Ms. Marshall said. The system likely would allocate 1% or 2%, and definitely no more than 5%, of its assets to venture capital, she said.

The system has one equity manager on a performance-based fee now and is negotiating such agreements with four or five more, she said. It also is looking at performance-based fees for real estate.

"It's kind of a natural for us wanting (performance-based fees) to flow through to other areas," she said.

Kenneth Mertz, chief investment officer of the $6.8 billion Pennsylvania State Employees' Retirement System, agreed. "We have put in performance-based fees for equity and bond managers; and we are feeling that we would like to compensate the venture capital managers on that same basis," he said. "We don't see a difference between the different asset classes."

The fund has invested in several venture capital partnerships, but has not negotiated performance-based fees with any to date, Mr.

Continued on page 18

Arizona set to diversify into international equity

PHOENIX — The $5.6 billion Arizona State Retirement System will diversify its asset mix during the next 12 months to include its first investments in the international equity markets, according to Max Sullivan, director.

The decision to move into international follows a detailed asset allocation study that Callan Associates, San Francisco.

Until this year, Mr. Sullivan said, the system was prohibited by state statute from investing in international. The Callan study began after a change in the law became effective in January.

Mr. Sullivan said the target asset mix range for the fund is 48% stocks, 15% bonds, 5% real estate equity, 10% mortgages, 10% zero-coupon bonds, 5% international stocks and 7% cash. All include flexibility to change based on existing and anticipated market conditions, he said.

The current asset mix is 43% stocks, 43% bonds, 6% mortgages and the balance in cash and short-term instruments.

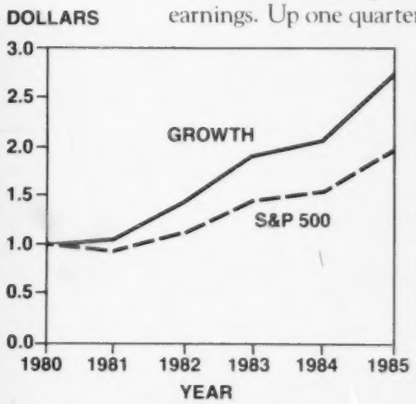
Funding for the international equity manager, expected to be hired before July 1, will be from cash flow, said Mr. Sullivan.

The Arizona system also is looking to bring on another balanced manager by July 1, after dropping Gardner and Preston Moss, which managed $500 million, earlier this year (*Pensions & Investment Age*, March 17). The money was placed in an existing index fund run by Wells Fargo Investment Advisors, San Francisco. ■

There are two kinds of growth funds.

More or less.

Most investment managers choose aggressive portfolios for their growth funds. Then sit back and wait for the results. It's an approach that takes more risk, in the hopes of gaining more reward. But often, these stocks are more aggressive than pension managers would like. Resulting in helter-skelter earnings. Up one quarter. Down the next.



PHOENIX "GROWTH" PERFORMANCE*

But at Phoenix, we've found a way to turn less into more. By combining less aggressive securities with highly aggressive management techniques our new Growth Separate Account can offer you more consistent results. Without the same risk.

In fact, our new Growth Separate Account is managed by the same team as our Phoenix Growth Fund Series. The #1 fund in its category for the last five years according to Lipper Analytical Services.

Send in this coupon today to find out more about Phoenix's new Growth Separate Account.

Phoenix Mutual
Hartford, Connecticut 06115

I'd like more information on your new Growth Separate Account.

Name _____

Title _____

Company _____

Address _____

City _____ State ____ Zip _____

Telephone _____

Send to: James L. Balch, Director
Phoenix Mutual
One American Row
Hartford, CT 06115 (203) 275-5000 A69

*Past performance is not intended to represent future results.

© 1986 Phoenix Mutual, Hartford, CT 06115

Plans find ways to . . .

Continued from page 15

equity investments as legislatures have gradually made the legal barriers to high-risk ventures more elastic.

According to *P&I Age*'s 1986 annual pension profiles, public funds increased stock investments by 3% in 1985.

"State laws used to restrict what the assets of a pension plan could be invested in," Mr. Levy said.

"These laws exist, but they are far fewer and less restrictive."

For example, in June 1984, California approved the "prudent man rule," a law permitting public pension funds to invest under guidelines similar to private funds (*P&I Age*, June 25, 1984).

Changes in investment laws nationwide, including in New York, Minnesota, Florida and Utah, precipitated a 10.7% increase in security holdings between July 1978 and June 1984. (*P&I Age*, Oct. 28, 1985).

The new laws have pushed public pension investment strategies closer to ones followed by private plans.

"Public funds certainly don't take as many risks," Mr. Levy said, "but the difference is becoming smaller."

Mr. Levy also cited the increased attention bond rating agencies are giving to pension assets as another impetus for states to earmark money to plans.

A better-funded plan means higher bond ratings and lower interest rates, he said.

Don Hoffmeister, executive director of the $2.4 billion Illinois State Universities' Retirement System, Champaign, said he expects bond ratings to affect the plan's future funding.

"More and more now, bonding agencies are looking at the obligations of the public pension fund," he said.

"I think the bond rating will eventually impact how we are going to be funded."

Despite the trend toward improved funding, a new obstacle has emerged over the past two years — South Africa divestiture, Mr. Levy said.

New Jersey's seven pension funds, totaling $16.7 billion, experienced a net fiscal loss of $56 million in assets last year because of such policies prohibiting investment in companies that do business in South Africa, said Roland Machold, director of divisions of investment.

"This figure represents the losses realized on the sales of the direct holdings of the pension fund," he said.

"Whether or not our funding will improve next year depends on the markets," Mr. Machold said.

Mr. Levy cautioned the study's results and figures are not gospel.

"The 1986 survey is the first reliable one we've done in this area," he said.

Last year's survey was compiled from a report by the National Association of State Retirement Administrators. This year's study was based on copies of each state's actuarial reports.

According to Phil Romello, actuarial associate with Martin Segal, the NASRA study was conceived for "an entirely different purpose," rendering comparisons between Martin Segal's '85 and '86 studies unreliable.

Funding of state employee pension funds*

State	Funded ratio	Interest rate	Salary rate	As of
Alabama	91.25	8 %	5.55 -8.16%	9/30/84
Alaska	86.25	8	8 - 7%[2]	6/30/85
Arizona	92.4	8	6½	6/30/85
Arkansas	125.2	7	5 - 8.8	6/30/85
California	63.1	8½	8	6/30/85
Colorado	60	7	5.5 - 12.9	12/31/84
Delaware	68.88	7½	6 - 9.89	12/31/84
Florida	52.85	9	7½	7/1/85
Georgia	50.44	7	5.2 - 9	6/30/84
Hawaii	82.31	8	6½	6/30/85
Idaho	59.21	7½	6	6/30/85
Illinois	59.52	8	6½	6/30/85
Indiana	70.77	7½	6½	6/30/84
Kansas	92.88	7	6	6/30/85
Kentucky	84.6	7	6	6/30/85
Maine	36.75	8½	5½	6/30/84
Maryland	42.3	7	6.15 - 9.98	6/30/85
Massachusetts	31.24	7½	6	7/1/83
Michigan	79.32	8½	6½	9/30/85
Minnesota	76.23	8 - 5[1]	6½	6/30/85
Mississippi	67.94	7½	5.18 - 9.22	6/30/84
Missouri	NA	7	5 - 8	6/30/85
Nebraska	NA	5		12/31/84
Nevada	57.08	8	6½	6/30/84
New Hampshire	96.85	8	6 - 8.60	6/30/83
New Jersey	43.36	6½	2.86 - 6	3/31/85
New Mexico	54.91	8	6 -9.8	6/30/85
New York	NA	7½	8½	3/31/85
North Carolina	79.76	7½	6.2 - 12.65	12/31/84
North Dakota	96	7½	6	7/1/85
Ohio	42.64	7½	5.5	12/31/84
Pennsylvania	58.22	5½	2.5 - 5.33	12/31/84
Rhode Island	52.79	7½	4.17 - 5.85	6/30/85
South Carolina	94.45	7	5.30 - 11.31	6/30/85
South Dakota	75.42	7	5 - 10.9	6/30/84
Tennessee	85.81	8½	8	6/30/85
Texas	NA	9	8.5	8/31/85
Utah	NA	7½	5.75	1/1/85
Vermont	56.36	8	5.17 - 6.87	6/30/85
Virginia	52.66	6½	4.5 - 8.6	6/30/84
Washington	50.45	7	5.25 - 11.15	12/31/84
West Virginia	48.68	7	6.01	6/30/84
Wisconsin	86.27	7½	6 - 10.9	12/31/84
Wyoming	68.14	7½	6	1/1/85

[1] 8% preretirement, 5% post.
[2] 8% for 5 years, then 7%.
* The following state employee retirement systems did not respond to the request for actuarial reports: Connecticut, Iowa, Louisiana, Montana, Oklahoma, and Oregon.
Source: Martin E. Segal Co., July 1986, from actuarial reports provided to Delaware State Pension System.

Corporate Finance

Proprietary product sets best banks apart

By Marci Baker

GREENWICH, Conn. — Proprietary product is the most crucial element separating the winners from the losers in an increasingly fast-paced, competitive international investment banking business, a survey shows.

According to the 10th annual report on investment banking by Greenwich Associates, the ability to design, develop and deliver this type of product is what enables a handful of exceptional investment banking firms to create big profits while executing transactions on an unprecedented scale and to securitize previously illiquid assets.

That ability also enables them to inform companies that they are being put into play, to arbitrage markets vs. futures and to come up with innovative new products in more complex financial markets.

Among the results underscoring the assessment, corporate executives said they look to an investment banker's understanding of the company and the industry, credibility with the company's senior management and strength in creative and innovative ideas in determining an investment house's effectiveness in giving a presentation.

The survey, based on personal interviews with 1,490 senior financial executives of large corporations between May and July, showed the largest amount of executives (60%), pointed to understanding of company and industry as most effective, followed by credibility (48%), and creative ideas (41%). Perhaps not surprisingly, those bankers considered least effective in presentations were those seen as lacking those three key ingredients, according to the survey.

These factors rated at least two to three times higher than others, such as outstanding relationship manager (22%), responsiveness to requests for information (20%), and market judgment and timing (19%). The latter two are much more important to utilities, 43% of whose executives said market judgment and timing are important in their assessment.

For public bond offerings as well as Eurobonds, executives said they rely most on understanding of company needs and market judgment and timing. Some 36% and 35%, respectively, said understanding the needs of the company and market judgment are the most important criteria, followed by credibility of company's senior management (32%), distribution capability (29%) and creative and innovative ideas (27%). Credibility of senior management was especially valuable to bank holding company executives (52%), while thrift executives (39%) put high value on the expertise of product specialists.

In Eurobond offerings, 30% and 26% of company executives rated understanding company needs and market judgment and timing, respectively, highly.

Expertise of relationship managers in international finance (21%), distribution capability (21%) and credibility with company's senior management (19%) followed.

Creative and innovative ideas, rated sixth with 17% in the universe of total companies, and second — with 31% — among large industrials. Large industrials ranked market judgment and timing first — with 44%.

Only financial executives with large industrial firms consider willingness to commit capital and

Continued on page 26

Chrysler Corp. at a glance

	1985	1984	1983	1982	1981	1980
Long-term debt as a % of capitalization	36	18.7	49.1	117.8	135.2	104.3
Interest coverage by earnings*	15.6	14.7	3.3	1.4	.09	−3.5

* Represents earnings before interest and taxes plus depreciation divided by interest.
Source: Chrysler's 1985 report to shareholders.

Chrysler rating upgraded

Reduced borrowing costs in corporation's future

By Brad Rudin

DETROIT, Mich. — Encouraged by Fitch Investors Service Inc.'s upgrade of Chrysler Corp.'s credit rating and the prospect of an upgrade by Moody's Investors Service, Chrysler financial executives and investment bankers predict reduced borrowing costs for the corporation that six years ago stood at the brink of bankruptcy.

Fitch's designation of Chrysler as an A rated company stands alone among the four rating agencies that make their evaluations public.

"The Fitch upgrade certainly won't hurt; it certainly will help some," said Frederick W. Zuckerman, Chrysler's treasurer. "I think probably we need one more agency to come along to make a big dent in that 100-basis point spread."

A spread of about 100 basis points separates BBB intermediate-term issues from A debt, he said, with 100 basis points equaling one percentage point.

The improved rating from Fitch in September, combined with an upgrade from Moody's, would do more than improve Chrysler's position in the public debt market, Mr. Zuckerman said. "It probably has some kind of psychological benefit and should, all things being equal, help with our stock price."

The commitment fee for Chrysler's revolving credit arrangement also could be renegotiated and bank lending rates could fall, both on the strength of the company's improved credit evaluation, Mr. Zuckerman said.

The improved ratings, he said, would be most beneficial to Chrysler Financial Corp., Troy, Mich., a heavy issuer of debt in the capital markets. Chrysler Corp., the parent company, has no plans to issue debt, Mr. Zuckerman said.

If Chrysler Financial receives a widely based single A rating, the subsidiary could expect an annual reduction of borrowing costs of between $25 million and $30 million, he said, based on a 100-basis-point reduction on the cost of issuing $3 billion of debt. Mr. Zuckerman noted the size of the reduction depends, in part, on how the other rating agencies proceed after Moody's completes its review.

An A rating by Fitch and Moody's might encourage Standard & Poor's Corp. to re-evaluate its position on Chrysler, Mr. Zuckerman added.

One investment banker, who did not want to be identified, said an upgrade by Moody's would result in a reduction in the cost of debt of between five and 10 basis points.

At Merrill Lynch Capital Markets, Andrew J. Cooley, managing director, said an A rating from Moody's could trim the spread between 10 and 20 basis points. "It's a little tough to tell at this point because we're all waiting to see what the rating will be," he said. Merrill Lynch is one of Chrysler's investment bankers.

Some of the tightening in spreads between Chrysler debt and Treasury issues was seen in August, when Chrysler Financial sold a three-year, $200 million issue bearing a coupon of 7.25%, Mr. Cooley said.

The Fitch upgrade and an upgrade by Moody's within the B range would leave Chrysler with a spread trimmed between five and 15 basis points, he said.

Continued on page 26

New domestic issues top $200 billion for 9 months

By Marci Baker

NEW YORK — A slower, but still brisk level of underwriting activity in the third quarter pushed overall domestic new issues volume over the $200 billion mark for the first nine months of 1986.

While the gap between the market shares of the top underwriters appeared to be narrowing, Salomon Brothers Inc. continued to lead other firms domestically for both the three- and nine-month periods.

Issuers raised $58.5 billion in the U.S. marketplace in the third quarter, according to data provided by IDD Information Services, New York. That represents a 23% drop from the record $76 billion raised in the second quarter and a 14% decline from the almost $68 billion generated in the first quarter.

Uncertain stock and bond markets kept some issuers out of the primary capital markets. Even so, low interest rates kept corporate appetites for cheap financing strong enough to push domestic new issues volume for the nine-month period to an unprecedented $202 billion — more than double the $94.7 billion raised in the United States by the same time last year.

U.S. issuers raised another $31.4 billion overseas during the nine months, putting the tally for worldwide financing activity by U.S. issuers at $232.2 billion, reported IDD. Including non-U.S. issuers, worldwide underwriting volume climbed to $359.4 billion by the end of September.

Last year, U.S. issuers generated $116.3 billion in worldwide offerings during the nine months through September. Including foreign entities, worldwide volume for this 1985 period was $203 billion.

Salomon captured 18.4% of the nine-month domestic underwriting volume, as lead manager for $37.2 billion of the total in 331 deals. First Boston Corp. followed with a 13.5% market share, underwriting $27.2 billion in 301 offerings.

Drexel Burnham Lambert Inc. rated third for the nine-month period with 12.3% of domestic volume; Morgan Stanley & Co. fourth, with 11.9%; and Goldman, Sachs & Co., fifth, with 10.6%.

For the third quarter, Salomon lead managed 14.5% of volume generated, underwriting $8.5 billion in 86 deals; Morgan Stanley, 14% market share, underwriting $8.2 billion in 66 deals; First Boston, 13.9% and $8.16 billion in 66 deals.

On a worldwide scale, Salomon took top honors for offerings by U.S. issuers only, while Credit Suisse First Boston ranked first when non-U.S. issuers' financing activities were included in the numbers for the first nine months of the year.

In the former, Salomon managed almost $40 billion for a 17% share of the market, followed by

Underwritten offerings - U.S. market*
(Jan. 1 — Sept. 30)

Firm	$ mils.	Issues
1. Salomon Brothers	37,220.3	331
2. First Boston	28,237.4	301
3. Drexel Burnham Lambert	24,798.9	209
4. Morgan Stanley	23,959.9	202
5. Goldman, Sachs	21,412.2	201
6. Merrill Lynch Capital Markets	19,386.8	219
7. Shearson Lehman Brothers	11,504.0	187
8. Kidder, Peabody	6,739.3	131
9. PaineWebber	3,361.3	93
10. Prudential-Bache Securities	3,089.2	56

* Full credit given to lead managers

Underwritten offerings - worldwide*
(Jan. 1 — Sept. 30)

Firm	$ mils.	Issues
1. First Boston	45,376.5	260
2. Salomon Brothers	44,293.8	299
3. Morgan Stanley	29,564.7	217
4. Drexel Burnham Lambert	25,171.9	204
5. Merrill Lynch Capital Markets	24,493.0	227
6. Goldman, Sachs	23,699.8	198
7. Shearson Lehman Brothers	13,774.9	146
8. Nomura Securities	13,595.7	118
9. Deutsche Bank	9,815.8	67
10. Morgan Guaranty	8,243.5	54

* Full credit given to lead managers

New domestic issues . . .

Continued from page 25

Morgan Stanley, with $25.1 billion or 10.8%; and Drexel with $25 billion or 10.8%.

CSFB, meanwhile, managed $45.4 billion for 12.6% of the worldwide nine-month financing volume that includes foreign issuers. Placing second was Salomon, with $44.3 billion or 12.3%; Morgan Stanley, third, with almost $30 billion, or 8.3%; and Drexel, fourth, with $25.2 billion and 7%.

CSFB also maintained its leading position in the Eurobond rankings, capturing 14.3% or $4.5 billion of the $31.4 billion in financing generated by U.S. issuers overseas.

Nomura Securities, which rated sixth for the nine-month period in 1985, ranked second, managing $3.2 billion for a 10.2% market share. Salomon was third, with 9.5% of that market, while Merrill Lynch Capital Markets was fourth, with 8.8%.

Of the $202 billion total for domestic volume, $152 billion was raised in the U.S. non-convertible debt markets. Another $30.7 billion was raised domestically in the common stock market over the last nine months, $9 billion was raised through convertible debt offerings, $6.7 billion through straight preferred issues and $3.3 billion through convertible preferred issues.

Each of these represents an increase over last year, ranging from 30.3% for convertible debt to 137.4% for straight debt.

(For the third quarter, issuers raised $45.6 billion of straight debt, $2 billion of convertible, $7.4 billion in common stock issues, $1.7 billion in straight preferred deals, and $1.6 billion in convertible preferred deals.)

Among the top-ranked underwriters for these nine-month categories, Salomon led in the straight debt and common stock rankings. The firm managed $31.7 billion, or 20.9%, of the straight debt deals for the period and $3.7 billion, or 12.1%, of the common equity deals issued domestically.

On the debt side, Salomon was followed by First Boston, with $25.7 billion of the total, and Morgan Stanley, with almost $20 billion. Goldman rated second in the stock rankings, with $2.81 billion, while Merrill rated a close third, with $2.79 billion.

Drexel, meanwhile, leads in the convertible debt and two preferred stock market segments, according to IDD. And in an indication that the firm's efforts to build strength in other arenas besides junk bonds may be meeting with some success, Drexel also ranked first for initial public offerings.

Drexel was lead manager for $2.9 billion, or 31.6%, of the convertible debt issues making their way into the market during the first nine months of 1986. The firm managed $1.4 billion, or 21.1%, of straight preferred offerings and $1.3 billion, or 39.8%, in convertible preferred volume.

In IPOs, Drexel took the lead by underwriting 33 smaller issues for a total of $1.7 billion, or 12.4%, of that market.

First Boston ranked second in convertible debt deals, with $1.1 billion; Salomon was second in straight preferred deals, with $1.3 billion; Kidder, Peabody & Co. was third in convertible preferred, with $475 million; and Prudential-Bache Securities was second in IPOs, with $1.5 billion.

Goldman, Sachs, which held the No. 1 IPO underwriting slot a year ago, rated 11th for the first nine months of 1986.

Among other underwriting highlights:

- Drexel continues to dominate the high-yield bond market, acting as lead underwriter on 45.6%, or $10.9 billion, of the $23.9 billion raised through the nine-month period, according to IDD. Its junk bond volume accounted for about $10.8 million, or 43.5%, of the $24.8 billion in total underwriting volume credited to the firm. During the same period last year, Drexel underwrote $5 billion in junk bonds, representing 62.5% of the $8 billion in total financings it managed.
- While Drexel clearly continues to dominate the high-yield bond arena, Morgan Stanley appears to be coming on strong. In what may be a first, Morgan Stanley usurped Drexel's traditional No. 1 spot in junk bonds by underwriting $2 billion in nine junk bond deals during the quarter to capture 24.7% of market. Drexel managed $1.5 billion in 17 deals for 18.5% of the $8.1 billion raised during the three-month period.

Morgan's third-quarter activity is largely responsible for its second-place ranking for the nine-month period. It managed 11 deals totaling $2.4 billion for that period in junk bonds, winning a 10% market share, according to IDD.

- Salomon took top honors for mortgage-related offerings, underwriting $10.8 billion of the $35 billion raised over the nine-month period. First Boston followed, capturing $7.8 billion of the volume. Merrill ranked third, with $3.2 billion.

The nine-month volume represented a 164% increase over the $13.4 billion raised during the first nine months of 1985.

- Goldman, Sachs led underwriters on three of the 10 largest common stock deals of the year to date. It acted as lead manager for Sears, Roebuck & Co.'s $332 million September offering, CIGNA Corp.'s $310 million May offering and Motorola's $302.8 million February offering. Pru-Bache had two of the 10 largest deals — the $750 million First Australia Prime Income Fund and the $570 million Global Yield Fund.

Lazard Freres & Co. underwrote the largest stock deal of the year so far — the $1.2 billion Henley Group IPO.

- Drexel and First Boston each underwrote four of the year's 10 largest debt deals. Among Drexel's deals was BCI Holding's $2.35 billion financing — the year's largest — used to take Beatrice Cos. private. Three of First Boston's four deals were securities backed by auto loans and issued by General Motors Acceptance Corp. The deals ranged from $725 million to $1 billion.
- Home Shopping Network was the best-performing IPO during the nine-month period. Home Shopping went public in May, selling 2 million shares at just less than $6 a share. Sept. 30, the stock was selling at 42⅛, for a 602.2% gain. The deal was managed by Merrill. ■

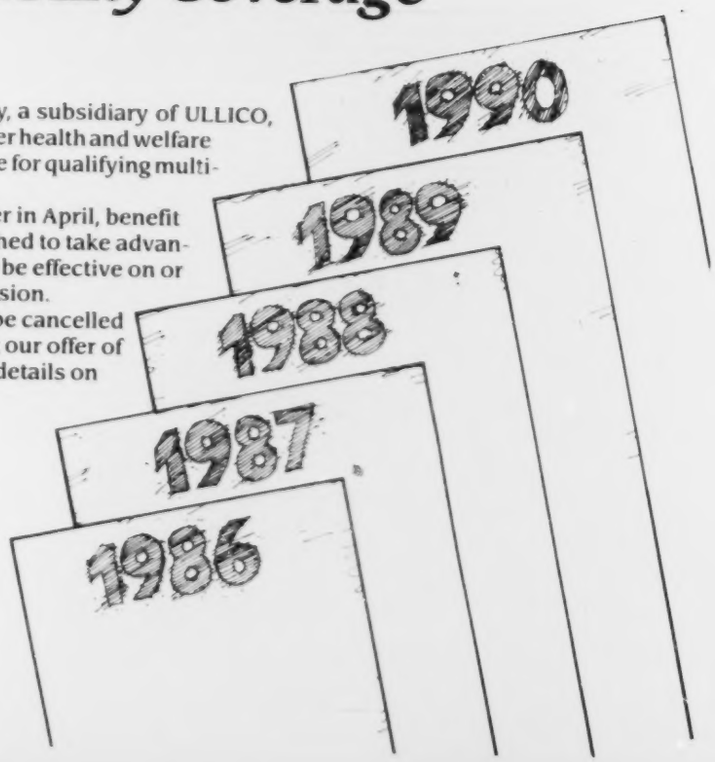
60 MONTHS 260 WEEKS 1826 DAYS

No Matter How You Count It, It's Still Five Years Of Fiduciary Liability Coverage

That's how long the Ulico Casualty Company, a subsidiary of ULLICO, the nation's largest underwriter for multi-employer health and welfare plans, will underwrite fiduciary liability insurance for qualifying multi-employer benefit plans.

Since we announced this unprecedented offer in April, benefit plans from every section of the country have rushed to take advantage of it. Time is limited, however. Policies must be effective on or before July 1, 1987 to contain this exclusive provision.

In a world where your liability coverage can be cancelled at any minute, you owe it to yourself to check out our offer of five years of guaranteed coverage. Call today for details on qualification and coverage.



Ulico Casualty Company
111 Massachusetts Ave., NW
Washington, DC 20001
202/682-6673

A part of the ***Union Labor Life Insurance*** *family of companies.*

Reprints of articles appearing in *Pensions & Investment Age* are available.

For information or orders contact:

Ulla Rodriguez
220 E. 42nd St.
New York, N.Y. 10017
(212) 210-0124.

Rating chart corrected

Salomon repeats as favored brokerage firm

The table showing the top Wall Street firms in terms of research and execution in the Sept. 29 issue was incorrect, and the correct table is published below.

As was correctly reported on the front page of the Sept. 29 issue, and in the story accompanying the table, Salomon Brothers Inc. had the best overall score followed by Merrill Lynch & Co. and Goldman, Sachs & Co..

By individual category, as correctly reported in the story, Merrill Lynch gained the highest number of points for equity research, followed by Goldman, Sachs and First Boston Corp.

Merrill received the highest number of first-place mentions, followed by Goldman and First Boston.

Goldman had the greatest number of second-place mentions and First Boston was most often named third.

In best equity block trading, Goldman was first overall, Salomon was second and Merrill was third. Goldman had the highest number of first-place mentions, followed by Salomon.

Salomon Brothers was most often named second and Merrill Lynch was most often named third.

In fixed-income research, Salomon led overall by a wide margin.

It was most often named first and second. Goldman was most often named third.

In fixed-income execution, Salomon Brothers was again most often named first and second. Goldman was most often named third. ■

How brokers rate on research and trade execution (number of mentions)

	Most often named 1st	Most often named 2nd	Most often named 3rd
Best equity research	Merrill Lynch (24) Goldman, Sachs (15) First Boston (7) Drexel Burnham (6) Salomon Brothers (5)	Goldman, Sachs (12) Merrill Lynch (11) First Boston (7) Kidder Peabody (7) Salomon Brothers (6) Donaldson Lufkin (6)	First Boston (10) Merrill Lynch (10) Drexel Burnham (8) Kidder Peabody (7) Morgan Stanley (6) Goldman, Sachs (5)
Best block trading	Goldman, Sachs (36) Salomon Brothers (17) Merrill Lynch (12) Morgan Stanley (5) Donaldson Lufkin (3) PaineWebber (3)	Salomon Brothers (19) Goldman, Sachs (17) First Boston (11) Merrill Lynch (11) Morgan Stanley (9) Kidder Peabody (2) C.J. Lawrence (2) Pru-Bache (2)	Merrill Lynch (10) Goldman, Sachs (10) Morgan Stanley (8) PaineWebber (8) First Boston (7) Smith Barney (6) Salomon Brothers (5)
Best fixed-income research	Salomon Brothers (37) First Boston (15) Merrill Lynch (7) L.F. Rothschild (3) Goldman, Sachs (2)	Salomon Brothers (20) First Boston (13) Merrill Lynch (11) Morgan Stanley (6) Goldman, Sachs (5)	Goldman, Sachs (13) First Boston (9) L.F. Rothschild (7) Morgan Stanley (5) Shearson Lehman (5) Merrill Lynch (4) Salomon Brothers (4)
Best fixed-income execution	Salomon Brothers (26) Merrill Lynch (17) Goldman, Sachs (9) First Boston (6) Drexel Burnham (3) L.F. Rothschild (3)	Salomon Brothers (18) First Boston (15) Merrill Lynch (11) Shearson Lehman (6) Morgan Stanley (5)	Goldman, Sachs (10) Salomon Brothers (9) Morgan Stanley (7) Drexel Burnham (5) First Boston (5) Pru-Bache (3)

Best stock market technician

Technician	Total weighted points
John Mendelson	88
Robert Farrell	82
Alan Shaw	26
Ralph Acampora	10

Best Wall Street economist

Economist	Total weighted points
Edward Hyman	124
Gary Wenglowski	50
Edward Yardeni	39
Gary Schilling	10

We are pleased to announce
the addition to our staff of:

J. Ivan Thornton, Jr.
Senior Associate and Consulting Manager

Richard A. Graff, Ph.D.
Senior Associate and
Director of Research and Development

and the promotion of:

Judith W. Heagstedt
Senior Associate and Consulting Manager

September 30, 1986

Ennis, Knupp & Associates,Inc.
11 South LaSalle Street, Chicago, IL 60603 312-263-4300

BURNS FRY AND TIMMINS INC.

subsidiary of

BURNS FRY LIMITED

Institutional Market Makers

in

Canadian Fixed Income Securities

BURNS FRY AND TIMMINS INC

Toronto 416-365-4100

New York 212-344-3870

Wall Street Plaza, New York, N.Y. 10005

Bransford joins Eager as partner

ATLANTA — Roger Bransford, managing director at William M. Mercer-Meidinger Inc. and head of its asset planning services unit in Atlanta, has resigned to join D.L. Eager Associates, Louisville, Ky., as a partner.

Mr. Bransford's resignation is effective Oct. 31. Douglas Stegner, vice chairman at Mercer-Meidinger, will replace Mr. Bransford temporarily as head of the asset planning services unit.

Mr. Stegner said no decision had been made on a permanent replacement for Mr. Bransford, and no change in course is anticipated for the asset planning services operation, which helps pension funds set asset mix policy, hire investment managers and monitor their performance.

Mr. Bransford said he was anxious to return to a role with more contact with investment managers.

"I signed on at Mercer-Meidinger to get the organization through the consolidation phase of the merger (of William M. Mercer Inc. and Meidinger Inc.). Now the company is going to go through a growth phase and this seemed to be an appropriate time to leave," he said.

Mr. Bransford added the internal part of his job was greater than the external part, and was likely to become even more so, and he preferred to have more outside contact.

At D.L. Eager Associates, Mr. Bransford will be developing investment and marketing strategies for money management firms, helping to train marketing and sales people for those firms and developing marketing and presentation materials. He will open an office for the firm in Atlanta.

He noted he and Dave Eager, the firm's co-founder, had worked together as investment management consultants previously at A. G. Becker & Co. and at Meidinger.

Mr. Bransford rejoined Mercer-Meidinger 15 months ago from Meridian Management Co., Little Rock, Ark., where he was president. He had left Mercer-Meidinger in June 1984.

GM saving . . .

Continued from page 1

market it to other companies.

- Messages will be compatible with the standard electronic business data interchange standard — known as X12 and developed by the American National Standards Institute — allowing receiving companies to update their accounts receivable automatically without having to rekey the data manually.
- GM will encourage its suppliers to receive all trade information electronically, not just payments, to enhance their trade relationship and save costs, said Benson K. Woo, GM's director of worldwide banking and cash management.

At a minimum, he said, suppliers will have to receive payments electronically. For the suppliers incapable or unwilling to move completely to electronic data interchange, GM will use the ACH to send payments to them, while sending trade information separately either in electronic or paper form.

He indicated suppliers that don't move to a complete electronic system will be at a competitive disadvantage.

- As part of the system, GM has designed a security arrangement to require encryption and authetication of the electronic payments and data. Encryption gives transmissions privacy, while authetication provides a greater degree of security against unauthorized transactions.
- In moving to pay electronically, General Motors believes it has resolved a touchy issue with suppliers — the renegotiation of trade terms to adjust for the end of check float — by neutralizing its effects. Suppliers, however, have not yet been contacted on the new trade terms, Mr. Woo said.

Mr. Woo said the savings to the company in moving to electronic payments "is a humongous number." He declined to disclose the amount, calling it proprietary.

The Auto Industry Action Group, a Southfield, Mich., trade organization, has estimated the savings at $200 a car for moving the entire trade information flow, not just payments, to electronics. An estimate of the savings for just the move to electronic payments from checks was placed at about $50 to $100 a car. GM still will handle some information by paper.

"Those numbers become extremely compelling for the auto industry to consider electronic payment," Mr. Woo said. "We're attacking not production cost per say, but the fixed overhead." Mr. Woo, however, would not comment on how close the AIAG's estimated savings would parallel GM's own expectations.

Whatever the savings, the move hasn't yet caught the attention of the investment community. In interviews, several analysts said they were unfamiliar with the automaker's program.

Mr. Woo and T.R. Hart, manager of banking, while discussing GM's intention in general, hadn't released any details on the payment system until this month, though the automaker's plans were described in the July 21 issue of *Pensions & Investment Age*, based on interviews with automotive and banking sources.

Mr. Woo said the electronic system will enhance factory efficiency, including such concepts as just-in-time inventory, which requires the quick coordination of trade information and payments, as well as delivery of parts.

Roger J. Cadaret, managing director of the AIAG, called GM's move to electronics a catalyst.

While many corporations now use electronic payments for special purposes, he noted the use for corporate trade payments has been limited. Speaking of GM's move, Mr. Cadaret said, "I think it's extremely important.

"It's a very strong signal that the majority of industry will be using electronic funds transfer in the near future."

The other two major auto companies are moving at different paces to electronic funds transfer.

Chrysler Corp. now pays 50 major suppliers electronically and hopes to get its other 350 major suppliers — those that produce at least 50 invoices a month — on electronic payments, according to Henry Nauka, general supervisor-accounts payable.

Ford Motor Co. hasn't moved to an electronic payments yet (*P&I Age*, Aug. 6).

Mr. Woo stressed the significance of GM's move is the exchange of all information between the company and its suppliers, not just substituting electronic for paper payments.

"Prior efforts by the banking industry to promote the widespread use of EFT for corporate trade payments have not succeeded," Mr. Woo said.

"Historically, efforts on corporate EFT have concentrated on simply changing a paper check to a stream of electrical signals. The difference with the approach taken by GM and its banks has been to recognize that the movement of the related information on a check has become as important as the movement of the funds themselves."

The importance of GM's move "is not one of electronic payments, but rather of the emergence in corporate America of electronic business data interchange between companies," Mr. Woo said during an electronic payments conference earlier this year.

Mr. Woo said the move will make General Motors the first U.S. corporation to convert all of its corporate trade payments from paper checks to an electronic form.

In all, he said, General Motors now issues 400,000 checks a month, totaling $4 billion.

To send the payments and trade information electronically, GM has set up a network of eight banks around the country. Mr. Woo declined to name the banks, but executives at several of the banks confirmed they are: Chase Manhattan Bank, Chemical Bank and Citibank, all of New York; Pittsburgh National Bank; Manufacturers National Bank of Detroit; National Bank of Detroit; First National Bank of Chicago; and Bank of America, San Francisco.

First Chicago "served as the lead bank of General Motors in creating the system and developing software," said Timothy A. Wayman, the bank's vice president and project manager for electronic payments.

E.I. du Pont de Nemours & Co., Wilmington, Del., supplies paint and other material to GM. Lee K. Foote, the chemical company's section manager of electronic data interchange, said Du Pont officials already have been approached by GM to be paid electronically. "Such a dominant industrial corporation pushing it and the vast number of corporations it affects is bound to be a major stimulus to electronic data interchange and electronic funds transfer," Mr. Foote said.

He said Du Pont intends to deal with GM through one of the eight banks, because of the compatibility with the ANSI transmission standard.

Although he noted the ACH will begin to install a ANSI compatible format called corporate trade exchange early next year, Mr. Foote said, "There will be virtually no banks capable of receiving CTX."

"There wouldn't be a CTX format now, at least, but for the fact Benson Woo took a very strong stand two years ago," Mr. Foote said. Before then, he said, "there was no talk of (the National Association of Automated Clearing Houses) sitting down with ANSI to develop a standard."

He said Du Pont hasn't quantified its own potential savings from GM's electronic system. "From a supplier's point of view, the things we suppliers do to help our customers do business more efficiently is to our benefit," he said.

He said Du Pont and GM now exchange electronically material release and shipping notices, though invoices are still on paper.

William R. Moroney, NACHA president and chief executive officer, said of GM's system, "It will probably increase the use of electronic payments because GM will be making a lot of payments electronically that it hadn't been making before.

"Exactly how they are going to do it, I'm still uncertain."

He said he has had discussion with Mr. Woo, but "I've never been able to get a straight answer from those at GM who have criticized the (ACH) system other than it doesn't have authentication or encryption."

"I suspect the pressure GM is putting on will get more banks to get involved in information processing."

The NACHA is "never going to be the leading edge" in EFT, he said. "I can't blame GM for stepping on the gas to get the system moving."

Under its system, GM will send a supplier's payment and trade information to any of the eight banks.

A supplier dealing with that bank or any of the other seven then will receive the payment electronically and, if it chooses, the trade information.

For suppliers dealing with other banks, GM will continue to bundle the payment and data, sending it to one of the eight network banks electronically. The bank then will unbundle the package, sending the payment through the ACH, while sending the information separately to the supplier.

"Obviously, not all 20,000 suppliers are going to choose to bank at one of these eight banks," Mr. Woo said.

"It's not a private payment system. We are not requiring our suppliers to bank at these banks. We don't think that is the right thing to do. Suppliers should have a right to choose their bank."

He suggested suppliers that continue to receive some information by paper will be at a competitive disadvantage. "I think suppliers will find it to their own advantage to move electronically," Mr. Woo said. "It will cost us more money to move information by paper and it will cost the supplier more money to process information by hand."

He said the electronic payment neutralizes the loss of check float. The GM study shows the float for suppliers is consistent, averaging three days. He said GM isn't planning to negotiate the float adjustment with each supplier.

He said GM will begin to move suppliers for eight divisions, including three major automotive divisions — CPC, for Chevrolet, Pontiac and Canadian-built vehicles; BOC, for Buick, Oldsmobile and Cadillac; and trucks and buses to the electronic system by the end of the year. ■

KKI - Hambro International Venture Fund
Initial Closing $25,000,000

Nippon Kangyo Kakumaru
Securities Co., Ltd.

and

HAMBROS

Are pleased to announce their joint sponsorship and operation of KKI - Hambro International Venture Fund for investment in promising young companies in Japan, Europe and North America.

Tokyo London Boston New York

Passive investments . . .

Continued from page 3

"tentative" moves. They are to be presented to the New York City Board of Estimate for approval Oct. 23.

Besides Wells Fargo and Boston Co., big winners in number of new accounts were Newbold's Asset Management, Philadelphia, and Dana Investment Advisors, Milwaukee, with six each. Newbold's accounts were all for equities, while Dana's were for investment in Small Business Administration loans.

Six traditional investment management firms had five new accounts reported. They are Bear Stearns Asset Management, Sanford C. Bernstein & Co. and Dreman & Embry Inc., all of New York; Harris Trust and Savings Bank, Chicago; Loomis, Sayles & Co., Boston; and Lowe, Brockenbrough, Tierney & Tattersall, Richmond, Va.

Several limited partnerships in real estate, leveraged buy-outs or venture capital had five or more new clients reported. John Hancock Apartment Fund Limited Partnership, Boston, closed with eight pension fund clients. Interven Partners, a Los Angeles-based venture capital fund, had eight tax-exempt investors reported.

Forstmann Little Subordinated Debt & Equity III, an LBO fund, had five tax-exempt investors reported, as did Bridge Capital Investors II, a venture capital partnership. Both funds are based in New York.

Managers that lost big chunks of business in the quarter included two terminated by the Illinois universities' system — American National Bank & Trust Co. of Chicago, which ran $445 million in a stock index fund, and Lehman, which handled $330 million in an active bond strategy.

Also losing big accounts were two active bond specialists terminated by Mississippi — MacKay-Shields Financial Corp., New York, which ran $263 million, and Wentworth, Hauser & Violich Inc., San Francisco, with $246 million. ■

Kleinwort Benson
International Investment
Limited

SPECIALISTS IN WORLDWIDE INVESTMENT

200 Park Avenue
New York, New York 10166
(212) 972-9315

Contact: Ian E. Lindsay or Kim P. Hedbawny